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Helen Dickinson
University of New South Wales Canberra
Gemma Carey
Eleanor Malbon
University of New South Wales
David Gilchrist
University of Western Australia
Satish Chand
University of New South Wales Canberra
Anne Kavanagh
University of Melbourne
Damon Alexander
Swinburne University

Viewpoint Article

Should We Change the Way We Think About Market Performance When It Comes to Quasi-Markets? A New Framework for Evaluating Public Service Markets

Abstract: *Markets are increasingly used by governments to deliver social services, underpinned by the belief that they can drive efficiency and quality. These 'quasi-markets' require on-going management to ensure they meet policy goals, and address issues of market inequity. This has seen debates emerge around 'market stewardship' and 'market shaping' that center on how best to manage markets toward optimal policy outcomes. At present, there is a significant gap in both literature and practice with regard to what types of actions are most effective for market stewardship. In this article, we outline a framework that helps diagnose different quasi-market problems. We delineate two dimensions of public service quasi-markets—sufficiency and diversity—using the example of a disability personalization market to show how this framework can unpack different types of quasi-market states. Lastly, we outline the types of interventions that might be adopted to help deal with ineffective quasi-markets.*

Evidence for Practice

- Market mechanisms are increasing being used by governments around the world to drive innovation and efficacies.
- Increasingly it is being recognized that these markets need intervention in order to meet policy goals.
- This paper provides a framework for conceptualizing types of market problems, and offers solutions for the scenarios outlined.

Around the world, markets, in various forms, are increasingly being used by governments as a tool in the delivery of social and care services with an aim of driving quality and efficiency. It is well recognized that many of these do not operate as 'conventional markets', giving rise to the term 'quasi-markets'. A range of studies have found that quasi-markets do not always operate effectively and in some case there is evidence of significant market failure (Carey et al. 2020). This points to the need for good quality evidence about how effective stewardship of markets should be undertaken and the types of approaches that market stewards can use to address issues of quasi-market performance. Yet, we find a significant gap in the literature relating to what market stewards should do to effectively oversee quasi-markets. Against this background, this article sets out the market capacity framework to support the identification of different types of quasi-market functionality. In doing so, we delineate two dimensions of public service quasi-markets—sufficiency and diversity—and argue that their intersection gives rise to different types of quasi-market outcomes. With relevance to quasi-markets in disability support, health, and education, the framework offers ways to differentiate states of quasi-market, and the impacts of these on consumers. Further, we outline the types of interventions that might be adopted to help deal with ineffective quasi-markets.

Markets and Quasi Markets

Markets have become a tool of choice for governments around the world in transforming public service sectors. Proponents of market-based reforms argue these can be effective in driving efficiencies and creating services that are better tailored to what consumers want (Miranda and Lerner 1995). There are vast volumes of literature that debate whether or not this is a desirable state (e.g. Warner and Hefetz 2002), but the reality is that in many countries they are central to public service systems and are unlikely to be removed any time soon. The question then emerges about how best we manage these markets.

Market management to some extent runs contrary to conventional neo-classical economics. Much of this literature sees governments having limited involvement outside of providing a broad legal framework (see Friedman 1962), with markets working in a self-regulatory capacity. However, public

Helen Dickinson is a Professor of Public Service Research and Director of the Public Service Research Group at the School of Business, University of New South Wales, Canberra. Her expertise is in public services, particularly in relation to topics such as disability policy and practice.
Email: h.dicksinon@adfa.edu.au

Gemma Carey is a Professor of Social Policy and Academic Director of the Centre for Social Impact at UNSW. She works with governments and non-government organizations to identify and change structures and processes regarding policy implementation that impact inequality. She has worked extensively on joined-up government reforms and disability service markets.
Email: gemma.carey@unsw.edu.au

Eleanor Malbon is a research fellow, her areas of expertise are systems methods, quasi-markets, and inequality.
Email: e.malbon@unsw.edu.au

David Gilchrist is a chartered accountant and an economic historian. He holds a PhD in economics from the University of Notre Dame Australia and is currently professor of accounting at the University of Western Australia.
Email: david.gilchrist@uwa.edu.au

Satish Chand is a Professor of Finance in the School of Business at the University of New South Wales and based at the Australian Defense Force Academy in Canberra. For the past 5 years, Satish has been researching the nexus between defense and development, drawing on the experiences of external peacekeeping in Bougainville (PNG), East Timor, Liberia, Mozambique, and the Solomon Islands.
Email: s.chand@adfa.edu.au

Anne Kavanagh is a Professor of Disability and Health. Anne is an epidemiologist. She has an international reputation for her research on health inequities particularly as it relates to people with disability. Her work in the field of health inequities spans a range of social determinants including disability, gender, the built environment, socioeconomic position, employment, and housing.
Email: a.kavanagh@unimelb.edu.au

Damon Alexander is a Senior Lecturer in Politics and Public Policy in the Department of Social Sciences. His expertise are in network analysis, particularly in political and social service contexts.
Email: dtalexander@swin.edu.au

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service markets are not 'conventional' markets in the sense they are quasi-markets. Conventional markets are based on a supply and demand relationship, where some individuals may only be able to access a lower quality of a product or a service based on cost. In a conventional market, changes in price provides information on supply and demand. Traditional market economics places a heavy emphasis on the ability of price variations to 'signal' needed changes in supply and demand for particular goods (Hayek 1945). This is how markets can coordinate an efficient allocation of limited resources. In a quasi-market, for the most part, prices do not change according to purchases between providers and participants but according to rules set by government. Unlike conventional markets, change in price does not provide information about variations in supply and demand. Information about supply has to be gathered and distributed in some other way. Moreover, prices play an important role in discovering information about consumer preferences and this knowledge process cannot be replicated by a centralized price-setting body (Hayek 1945).

Quasi-markets are defined by their common features including:

- Markets instituted by governments to promote and distribute the use of public services
- Markets underpinned by public moneys, administered through government bureaucracy while adhering to common market principles such as consumer choice (Bartlett and Le Grand 1993).

Within quasi-markets governments play a role in attempting to balance considerations of efficiency and equity (Bartlett and Le Grand 1993). In this sense, there is a crucial role for market stewardship within quasi-markets in order to promote quasi-market performance.

Quasi-Market Performance and Market Stewardship

Brown, Potoski, and Van Slyke (2006) argue that effective markets require fairly strict conditions. Significant numbers of well-informed buyers and sellers must be able to enter and exit the market and exchange resources at low costs; conditions that often do not apply to quasi-markets. There are a variety of reasons why markets might fail including limited information, high transactions costs, the existence of monopolies, individuals behaving opportunistically, uncertainty about the future and a range of other competitive failures (Gash and et al. 2014). Market stewards therefore play an important role in keeping quasi-markets functional (Gash and et al. 2014).

Quasi-market failure can have very real consequences for those accessing essential public services. For example, the U.K. aged care sector experienced market failure most visibly demonstrated by the collapse of Southern Cross. This organization failed at a time when it was operating 750 care homes and their residents needed to be quickly accommodated and in a way that did not create excessive distress for individuals losing their home. As this example demonstrates, many of the conditions for effective market operation were not in place such as unfair pricing for self-funders, insufficient capacity, lack of basic information, a complex system that people found difficult to navigate and unfair practices (Competition & Markets Authority 2017). There was significant outcry against the government in response to this crisis (Glasby, Allen, and Robinson 2019), demonstrating that just because services were provided by non-government entities it did not mean that government does not bear responsibility for this market.

In another example, Australia has recently introduced the National Disability Insurance Scheme, shifting services toward a 'personalized' approach (Dickinson 2017) where participants purchase services that meet their needs from a newly established disability quasi-market (Carey et al. 2018). In order for the NDIS to achieve its vision of choice and control for all participants, robust disability markets are needed nationwide. Yet some considerable market gaps have opened up, most notably in rural areas and around some types of supports that are either complex or low-margin (McKinsey & Company 2018). Market failures in this context mean that people with disability go without needed services. Particular concerns have been raised about culturally safe and responsive services for Aboriginal and Torres Strait Islander people (NACCHO 2018) and members of culturally and linguistically diverse communities (Heneker et al. 2017). Concerns have also been raised around specialized supports that have insufficient supply, low demand, or complex needs, such as early childhood intervention, behavioral management, and specialist disability accommodation (Ernst & Young Consulting 2019).

In both U.K. aged care and the Australian NDIS, there have been calls for more effective market stewardship to help deal with market failures (Joint Standing Committee on the 2018). Market stewardship denotes a more active role for government in the management of markets than found in conventional 'free' markets. Where market regulation involves 'light touch' approaches such as the removal of fraudulent service providers, market stewardship comprises oversight actions by governments, deliberate market shaping activities, and active support for innovation and take up of best practice (Carey et al. 2018). Examples of market stewardship may include funding a 'provider of last resort' or deliberately sharing market information about supply and demand in order to create favorable market conditions. Market stewardship is most effective when localized, policy-specific, and both formal and informal (Brown and Potoski 2004). While there are theoretical and conceptual discussions of market stewardship, a recent review into the empirical evidence base for market stewardship actions revealed limited empirically tested research in the academic and gray literatures on what market stewards can do in the face of quasi-market failure (Carey et al. 2020).

Market Capacity Framework

In order to support local areas working in and around the National Disability Insurance Scheme as they try and mitigate against and/or deal with market failure, we developed the Market Capacity Framework (Reeders et al. 2019). The purpose of this framework is to assist in assessing the performance of different markets within the NDIS (or similar schemes) and whether they demonstrate facets of market failure. Having analyzed the market with this tool, locally appropriate responses might then be developed to these issues. This paper extends on this initial work in identifying potential levers to intervene in markets that have facets of disfunction according to the tool.

In order to assist with diagnosing market problems, we define market capacity according to two dimensions: *market sufficiency* and *market diversity*. The concepts of sufficiency and diversity are applicable to any public service quasi-market that aims to balance considerations of efficiency and equity. These two dimensions are defined follows:

- *Market sufficiency* means there is enough service provision for competition to emerge and for basic needs to be met, even though there may not be optimal fit with participants' needs and preferences.
- *Market diversity* refers to the availability of different approaches to service provision, enabling consumers to have a meaningful choice. If consumers do not have a meaningful choice of provider, and if they cannot change provider when they are unhappy with the supports they receive, competition-driven market incentives and dynamics do not operate and the market cannot evolve (Reeders et al. 2019).

The dimensions of market diversity and market sufficiency intersect to create four possible forms of market failure in public service quasi-markets, as detailed in Table 1.

Table 2 provides a summary of the different scenarios that are generated by the different quadrants of the Market Capacity Framework.

Using the Market Capacity Framework

The Market Capacity Framework can be applied to public service quasi-markets on any scale to better conceptualize how robust the market is, and what types of actions market stewards could or should take in order to address problems. In this analysis, we go beyond price, which, as outline above, tends to be the main mechanism for steering in conventional markets.

Quadrant A: Lack of Diversity and Sufficiency

In the face of complete market failure, as the UK aged care example demonstrates, stewards still have a responsibility to meet citizen's needs. In this case, market stewards might immediately need to identify a provider of last resort to ensure provision, or intervene in some other way to build the capacity of providers to move into the market (Baxter, Parvaneh, and Glendinning 2013). Where a provider cannot be found, the only option may be for the state to provide these services. Having secured provision, market stewards need to consider how to diversify provision either through more market entrants or through the existing provider. Support for this process might be sought through a range of actors including user advocacy organizations (Carey and Malbon 2020).

Table 1 The Market Capacity Framework

Market Sufficiency	Market Diversity	
	Non-Diverse	Diverse
Insufficient	Market failure (A)	One provider with strong tailoring to client needs (B)
Sufficient	Multiple suppliers of standardized services that compete on price (C)	Diversified supply (D)

Source: Adapted from Reeders et al. (2019).

Quadrant B: Low Sufficiency, High Diversity

In this scenario, a few providers exist in a marketplace, but are tailoring services to citizens' needs (i.e. offering a diversity of services). Here, the role of market stewards is to ensure this diversity is sustained. That is, providers do not revert to delivering single programs that do not meet the needs of citizens, or that citizens are not subject to 'capture' by services and feel they must take the services on offer rather than push for services that meet their needs. The goal of market stewards faced with a market in Quadrant B is to prevent it moving toward market failure (Quadrant A) or low diversity (Quadrant C), and to progress it toward higher diversity and sufficiency (Quadrant D). In order to monitor this situation, market stewards might choose to work closely with user organizations to help gather intelligence from service users and carers.

Quadrant C: High Sufficiency, Low Diversity

In this market scenario, many providers are offering the same service thereby curtailing choice. There are a range of levers available for market stewards to address this issue. For example, rules could be changed so that providers compete on the basis of outcomes (e.g. are citizens meeting their self-determined goals) rather than price (Collins-Camargo, McBeath, and Ensign 2011). Stewards could also work to build capacity of providers to offer a greater diversity of services, or support other local actors to do this (Carey and Malbon 2020). In disability markets in England, for example, 'brokers' were used by some local governments to stimulate innovation by working with providers and their clients to get better tailored services (Baxter, Parvaneh, and Glendinning 2013). Similarly, funds might be made available at the local level to 'reward' partners who diversify (Carey et al. 2019), or the use of tariffs where payments are given in accordance with outcomes achieved (Allen and Petsoulas 2016).

Quadrant D: High Sufficiency, High Diversity

In this market scenario, there are many providers offering a high degree of diversity in services. The implications of high sufficiency are a stable market that is not vulnerable to the potential loss of providers. The implications of the high diversity are that services are able to be tailored to meet the needs of the service user, either within existing providers or by switching to a new provider. Competition is healthy and providers are incentivized to innovate in service provision. This is usually the ideal-type of market scenario for quasi-markets. Market stewards are likely to be invested in market monitoring, quality, and safeguard monitoring and price setting.

Conclusion

In this paper, we have made the case for the market capacity framework; a diagnostic tool to support the identification of the nature of a market. It can help policy practitioners understand the type of market and what, if any, market stewardship actions may be appropriate. By supporting market stewards to identify more precisely the problem in a given market, actions are more likely to be responsive and effective. This framework is a refinement of traditional understandings of quasi-market failure, which focuses tightly on price. The market capacity framework aims to capture the complexities of evaluation and stewardship of public service markets to meet the core goals of market function and their stated policy goals, such as meeting health or welfare needs. According to this framework, even in quasi-markets where prices are centrally fixed,

Table 2 Different Types of Market Capacity and their Impact on Consumers

Market Capacity Status	Consumer Experience	Description of Scenario
(A) Market failure *Insufficient and non-diverse markets*	"There are no providers offering services for me."	There are few or no providers, so there is little competitive incentive for responsiveness to a consumer's needs and preferences. As a result, dynamic market function does not emerge and prices are inefficient. This category is perhaps the most concerning state of a health-related quasi-market, a market in which there are insufficient providers and a lack of diversity of providers. This may be typically thought of as existing in more remote areas, with low population levels affecting the ability for providers to work efficiently in the area.
(B) One provider with strong tailoring to client needs *Insufficient and diverse*	"There is just one provider, but they tailor their service to me."	This category describes a market where there is one single provider (or a low number of providers) that are highly tailored to meet the diverse needs of clients in the market. This category would represent aa oligopoly situation in which one or a small number of providers control all available funds but do, in fact, provide sufficient services to meet the needs of clients. A market for a particular service with a single supplier may be characterized as market failure, however this arrangement is common in quasi-market arrangements for public service delivery, where the market refers to initial competition for the single provider role. This market arrangement affords a diversity of possible approaches and responsiveness to the individual participant, even though there is only a single provider.
(C) Standardization *Sufficient and non-diverse markets*	"There are lots of providers but they all offer the same thing, they will not tailor to me."	This scenario is the risk of having a market with many providers offering standardized services and competing on price alone. This would be a sufficient but non-diverse market, with enough market actors and trades to meet the policy goal of cost efficiency, but a lack of diversity to meet the distinctive needs of individual consumers. This market configuration would meet the goal of efficient provision, but may not be effective for consumers.
(D) Diversified supply *Sufficient and diverse*	"I can choose from a range of providers offering different approaches to the service I need."	Multiple providers offer qualitatively different approaches to service provision. They target different niches defined by the needs of consumers and the prices for services set by the quasi-market stewards, generating incentives for responsiveness to consumer's needs and preferences. This market arrangement fulfills quasi-market goals of efficiency and quality of service provision with autonomy for consumers to exercise choice.

as is common, other aspects of the market may 'signal' information about market failure to market stewards.

By broadening the understanding of market failure to market sufficiency and diversity, rather than a focus on price, the market capacity framework indicates that a broad array of actors can be involved in assessing and evaluating market failure. This can include local governments, regulatory agencies, service providers and their peak bodies, advocacy organizations, community, consumers, and their families.

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